

The Companies have entered into operating leases for certain automotive and office equipment, a parcel of land and WTTE's broadcasting tower facility under terms ranging from three to ten years. The rent expense under these leases, as well as certain leases under month-to-month arrangements, for the three months ended December 31, 1990, the years ended December 31, 1991 and 1992, and the six months ended June 30, 1992 and 1993, aggregated approximately \$258,000, \$268,000, \$239,000, \$120,000 and \$108,000, respectively. Future minimum payments under the leases are as follows (in thousands):

1993	\$118
1994	117
1995	21
1996	<u>—</u>
	<u>\$256</u>

11. TRANSACTIONS WITH FORMER OFFICERS:

In December 1986, the Companies entered into certain not-to-compete agreements with a former officer in the aggregate amount of \$345,000 per year. This agreement ended May 1993.

On January 1, 1988, the Companies issued a note payable to another former officer in the amount of \$4,000,000 in consideration of a stock redemption. This note payable matured and was repaid in February 1992, along with interest due in arrears for this note.

Also during 1990, the Companies paid \$5,979,000 to this former officer in consideration of a stock redemption and extensions of the existing not-to-compete and consulting agreements through 1993. As this transaction was a final redemption related to a step acquisition which began in 1986, this redemption was also accounted for under the purchase method of accounting. As such, the agreement resulted in additional recorded acquired intangible broadcasting assets of \$1,242,000 and other assets of \$4,800,000 in the Companies' 1990 financial statements.

On January 1, 1988, the former officer also loaned the Companies \$363,000, through a term promissory note. This note also matured February 1992. Interest on these notes accrued at 5.5% per annum to be paid annually. Additional interest of 10.5% per annum, on the unpaid principal balance, was paid at maturity along with the entire principal portion.

Additionally, the Companies entered into various consulting and not-to-compete agreements with this former officer and a related consulting company. Under these agreements, annual consulting fees, which were guaranteed by CRI and WBFF, of \$563,000 and aggregate not-to-compete payments totaling \$2,657,000 were payable through 1991. Payments under these agreements were \$2,157,000 and \$2,512,000 during 1991 and 1992, respectively, with the final payment made in February 1992.

The expense under these agreements is being recorded on a straight-line basis over the life of the agreements and is recorded in the Companies' consolidated statement of operations within the respective expense classifications to which they relate. Expenses recorded in excess of cash payments are recorded as accrued liabilities. Expenses recorded under these agreements were \$2,525,000 in 1991 and 1992.

12. LIFE INSURANCE PROCEEDS:

In May 1993, the Company received life insurance proceeds in excess of the carrying value of the related policies of approximately \$844,000. This nontaxable gain has been recorded as other income.

13. ACQUISITION OF WPGH:

The unaudited pro forma summary consolidated results of operations for the three months ended December 31, 1990, and the year ended December 31, 1991, assuming the acquisition of WPGH and the sale of WPTT had occurred on October 1, 1990, is as follows (in thousands):

	<u>1990</u>	<u>1991</u>
	(Unaudited)	
Revenues, net	\$15,066	\$56,547
Operating expenses, net of depreciation and amortization	8,168	30,168
Depreciation and amortization	5,726	23,327
Other expenses, net	3,338	14,311
Benefit for income taxes	(800)	(3,300)
Net loss	<u>\$ (1,366)</u>	<u>\$ (7,959)</u>

14. SUBSEQUENT EVENTS:

Acquisitions

Subsequent to June 30, 1993, the Company entered into an agreement with ABRY Communications, Inc. (ABRY) to purchase two of their stations for an aggregate purchase price of approximately \$60 million, plus approximately \$56 million for covenants not-to-compete in these and the Company's current markets. These two stations, both of which are Fox affiliates, are WCGV in Milwaukee, Wisconsin, and WTOO in Birmingham, Alabama.

The Company has also entered into agreements to purchase the program contracts and certain other assets of television station WNUV in Baltimore, Maryland, and WVTM in Milwaukee, Wisconsin. These agreements are for an aggregate purchase price of approximately \$65 million. The Company will not be acquiring the FCC license and certain other related assets of either station.

A standby letter of credit has been issued in the amount of \$6.25 million and placed with an escrow agent to hold for the ABRY acquisitions. Restrictions against the Company's revolving line of credit in that amount are in place as long as the letter of credit remains open. The execution of the letter of credit is limited to specific breaches of the agreements.

Bonuses Declared

In September 1993, the Company declared special bonuses to be paid to executive officers totaling \$10,000,000. As the bonuses were compensation for various past services, the total amount has been recorded as compensation expense during the six months ended June 30, 1993 and has been accrued as of June 30, 1993.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEET

AS OF SEPTEMBER 30, 1993

(in thousands)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 2,428
Accounts receivable, net of allowance for doubtful accounts of \$575	13,979
Refundable income taxes	1,537
Current portion of program contract costs	6,056
Deferred barter costs	688
Prepaid expenses and other current assets	953
Deferred tax asset	<u>450</u>

Total current assets

26,091

PROPERTY AND EQUIPMENT, net

12,754

PROGRAM CONTRACT COSTS, noncurrent

5,144

LOANS TO OFFICERS AND AFFILIATES, net of deferred gain of \$620

12,934

OTHER ASSETS

4,343

ACQUIRED INTANGIBLE BROADCASTING ASSETS, net

63,492

Total Assets

\$124,758

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 1,284
Accrued liabilities	3,684
Current portion of long-term liabilities —	
Notes payable and commercial bank financing	10,874
Capital leases payable	756
Notes and capital leases payable to affiliates	621
Program contracts payable	12,526
Deferred barter revenues	<u>713</u>

Total current liabilities

30,458

LONG-TERM OBLIGATIONS:

Notes payable and commercial bank financing	71,063
Capital leases payable	1,246
Notes and capital leases payable to affiliates	18,437
Program contracts payable	8,734
Deferred taxes payable	1,219
Deferred gains	<u>280</u>

131,437

COMMITMENTS AND CONTINGENCIES (Note 3)

STOCKHOLDERS' EQUITY

Common stock, \$.01 par value, 25,000,000 shares authorized and 691,980 shares issued and outstanding

7

Additional paid-in capital

4,746

Accumulated deficit

(11,432)

Total stockholders' equity

(6,679)

Total Liabilities and Stockholders' Equity

\$124,758

The accompanying notes are an integral part of this unaudited consolidated balance sheet.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1992 AND 1993
(in thousands)

	<u>1992</u>	<u>1993</u>
REVENUES:		
Advertising revenues, net of agency commissions of \$6,801 and \$7,785	\$40,441	\$45,768
Revenues realized from barter arrangements	<u>5,129</u>	<u>5,523</u>
Net broadcast revenues	<u>45,570</u>	<u>51,291</u>
OPERATING EXPENSES:		
Program and production	12,179	12,224
Selling, general and administrative	8,377	9,104
Amortization of program contract costs and net realizable value adjustments	11,841	6,999
Depreciation and amortization of property and equipment	2,003	1,879
Amortization of acquired intangible broadcasting assets and other assets	9,634	8,422
Special bonuses paid to executive officers	<u>—</u>	<u>10,000</u>
	<u>44,034</u>	<u>48,628</u>
Broadcast operating income	1,536	2,663
OTHER INCOME (EXPENSE):		
Interest expense	(9,972)	(8,574)
Interest income	864	772
Other income	<u>79</u>	<u>850</u>
	<u>(9,029)</u>	<u>(6,952)</u>
LOSS BEFORE BENEFIT FOR INCOME TAXES	(7,493)	(4,289)
BENEFIT FOR INCOME TAXES	<u>1,399</u>	<u>80</u>
NET LOSS BEFORE EXTRAORDINARY ITEM	(6,094)	(4,209)
EXTRAORDINARY ITEM — GAIN ON PURCHASE OF WARRANTS	<u>—</u>	<u>1,257</u>
NET LOSS	<u><u>\$ (6,094)</u></u>	<u><u>\$ (2,952)</u></u>

The accompanying notes are an integral part of these unaudited consolidated statements.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1993
(in thousands)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
BALANCE, December 31, 1992	\$7	\$4,708	\$ (8,480)	\$(3,765)
Realization of deferred gain	—	38	—	38
Net loss	—	—	(2,952)	(2,952)
BALANCE, September 30, 1993	<u>\$7</u>	<u>\$4,746</u>	<u>\$(11,432)</u>	<u>\$(6,679)</u>

The accompanying notes are an integral part of this unaudited consolidated statement.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1992 AND 1993
(in thousands)

	<u>1992</u>	<u>1993</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (6,094)	\$ (2,952)
Adjustments to reconcile net loss to net cash flows from operating activities –		
Depreciation and amortization of property and equipment	2,003	1,879
Amortization of acquired intangible broadcasting assets and other assets	9,634	8,422
Amortization of program contract costs and net realizable value adjustments	11,841	6,999
Gain on life insurance proceeds	–	(844)
Amortization of debt discount	1,375	1,546
Realization of deferred gain	(79)	(73)
Gain on purchase of warrants	–	(1,257)
Gain on sale of assets	–	(6)
Changes in assets and liabilities –		
Decrease in accounts receivable, net	482	3,492
(Increase) decrease in refundable income tax	(822)	263
Decrease in prepaid expenses and other assets	1,367	524
Decrease in accounts payable and accrued liabilities	(7,519)	(938)
Decrease in income taxes payable	(320)	(186)
Decrease in deferred taxes payable	(1,510)	(681)
(Increase) decrease in deferred tax asset	(300)	700
Net effect of increase in deferred barter revenues and change in deferred barter costs	(240)	(23)
Payments on program contracts payable	(7,501)	(6,350)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>2,317</u>	<u>10,515</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(268)	(255)
Proceeds from life insurance benefits	–	1,075
Loans to officers and affiliates	(732)	(175)
Repayment of loans to officers and affiliates	101	728
Proceeds from disposal of assets	–	398
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(899)</u>	<u>1,771</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and commercial bank financing	8,036	25,000
Purchase of warrants	–	(10,350)
Repayments of notes payable, commercial bank financing and capital leases	(9,926)	(25,849)
Payments for deferred financing costs	–	(283)
Repayments of notes and capital leases to affiliates	(155)	(199)
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>(2,045)</u>	<u>(11,681)</u>
INCREASE (DECREASE) IN CASH	<u>(627)</u>	<u>605</u>
CASH, BEGINNING OF PERIOD	<u>1,381</u>	<u>1,823</u>
CASH, END OF PERIOD	<u>\$ 754</u>	<u>\$ 2,428</u>
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR:		
Interest	<u>\$10,692</u>	<u>\$ 6,525</u>
Income taxes	<u>\$ 456</u>	<u>\$ 500</u>

The accompanying notes are an integral part of these unaudited consolidated statements.

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1992 AND 1993

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying unaudited consolidated financial statements, prepared on the accrual basis of accounting, include the accounts of Sinclair Broadcast Group, Inc. (SBG), Commercial Radio Institute, Inc. (CRI), Chesapeake Television, Inc. (WBFF), WPGH, Inc. (WPGH) and WTTE Channel 28, Inc. (WTTE) and all other subsidiaries. Through August 1993, CRI was a wholly-owned subsidiary of SBG, and WBFF, WPGH and WTTE were wholly-owned subsidiaries of CRI. In September 1993, CRI was merged into SBG. The companies mentioned above, which are collectively referred to hereafter as "the Company or Companies", own and operate television stations in Baltimore, Maryland; Pittsburgh, Pennsylvania; and Columbus, Ohio.

Interim Financial Statements

The consolidated financial statements for the nine months ended September 30, 1992 and 1993 are unaudited, but in the opinion of management, such financial statements have been presented on the same basis as the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for these periods.

These financial statements do not include all disclosures normally included with audited consolidated financial statements as permitted under the applicable rules and regulations, and, accordingly, should be read in conjunction with the notes contained in the consolidated financial statements and notes thereto as of December 31, 1990, 1991 and 1992, June 30, 1992 (unaudited) and 1993.

Programming

The Companies have agreements with distributors for the rights to television programming over contract periods which generally run from one to seven years. Contract payments are made in installments over terms that are generally shorter than the contract period. Each contract is recorded as a liability when the license period begins and the program is available for its first showing. The portion of the program contracts payable due within one year is reflected as a current liability in the accompanying consolidated financial statements.

The rights to program materials are reflected in the accompanying consolidated balance sheets at the lower of unamortized cost or estimated net realizable value. Estimated net realizable values are based upon management's expectation of future advertising revenues to be generated by the program.

Due to programming commitments entered into in 1992, certain program contracts acquired in connection with the acquisition of WPGH were subsequently determined to have no value to the Companies. Approximately \$2,500,000 of charges were included in amortization of program contract costs and net realizable value adjustments during the nine months ended September 30, 1992 related to these contracts.

2. RELATED PARTY TRANSACTIONS:

In January 1992, WPGH entered into a management agreement with Keyser Communications, Inc. (KCI), an affiliated company owned by the stockholders of the Company, whereby WPGH places on WPTT, another television station in Pittsburgh formerly owned by the Company, certain of WPGH's excess programming on behalf of KCI. Program contracts deemed to have no value to WPGH were utilized under this arrangement during 1992 and 1993. Amortized cost and net book value as of the beginning of the year, or the contract purchase date (for current period additions), for these contracts

were approximately \$1,460,000 and \$1,200,000 for the nine months ended September 30, 1992 and \$981,000 and \$371,000 for the nine months ended September 30, 1993, respectively. In consideration for this programming, WPGH earns a 10% commission on all net revenues generated for this and other programming plus the promotional use of any unsold inventory on WPTT. Any out-of-pocket expenses are reimbursed by KCI, although WPGH does pay for commissions earned on the sales. Commissions and reimbursements, net of commissions paid, of approximately \$84,000 and \$76,000 during the nine months ended September 30, 1992 and 1993, respectively, and promotional commercial inventory valued at approximately \$30,000 and \$26,000 during the nine months ended September 30, 1992 and 1993, respectively, were received under this arrangement.

In September 1993, the Company entered into sale-leaseback transactions in which they sold land and certain facilities to Gerstell Development Limited Partnership (Gerstell), an entity wholly owned by the stockholders of SBG, and then leased the land and facilities under noncancelable capital leases which expire in 2000.

The Company sold this land and a tower in Pittsburgh, Pennsylvania to Gerstell for \$100,000 in cash and a \$2,100,000 note which approximated the Company's net recorded historical cost for these assets. The note is payable interest only in the first year with principal and interest payments of \$15,674 beginning November 1994 at an interest rate of 6.18% per annum ending October, 2013. The WPTT tower facility in Monroeville, PA was also sold to Gerstell in September 1993 for \$115,000.

The commercial bank has retained its security interest in the facility. In return, SBG is guaranteeing a \$2,000,000 construction loan for Gerstell for use in constructing a new tower in Pennsylvania.

In September 1993 several officers repaid \$651,000 of loans which had been made to them by the Company. These loans had been included in Loans to Officers and Affiliates.

3. CONTINGENCIES AND OTHER COMMITMENTS:

Lawsuits and claims are filed against the Companies from time to time in the ordinary course of business. These actions are in various preliminary stages, and no judgments or decisions have been rendered by hearing boards or courts. Management, after reviewing developments to date with legal counsel, is of the opinion that the outcome of such matters will not have a material adverse effect on the Companies' financial position or results of operations.

4. ACQUISITIONS:

In August 1993, the Company entered into an agreement with ABRY Communications, Inc. (ABRY) to purchase two of their stations for an aggregate purchase price of approximately \$60 million, plus approximately \$56 million for covenants not-to-compete in these and the Company's current markets. These two stations, both of which are Fox affiliates, are WCGV in Milwaukee, Wisconsin, and WTOO in Birmingham, Alabama.

The Company has also entered into agreements to purchase the program contracts and certain other assets of television stations WNUV in Baltimore, Maryland, and WVTM in Milwaukee, Wisconsin. These agreements are for an aggregate purchase price of approximately \$65 million. The Company will not be acquiring the FCC license and certain other related assets of either station. The acquisitions are subject to FCC approval. Scripps Howard Broadcasting Company has filed a petition to deny the application to assign the license of WNUV to WNUV Licensee, Inc., a subsidiary of Glencairn Ltd. Although the Company believes that the proposed acquisitions do not violate current FCC regulations, there can be no assurance that FCC consent to the transactions will be obtained.

A standby letter of credit has been issued in the amount of \$6.25 million and placed with an escrow agent to hold for the ABRY acquisitions. Restrictions against the Company's revolving line of credit in that amount are in place as long as the letter of credit remains open. The execution of the letter of credit is limited to specific breaches of the agreements.

5. BONUSES DECLARED:

In September 1993, the Company declared and paid special bonuses to executive officers totaling \$10,000,000. As the bonuses were compensation for various past services, the total amount has been recorded as compensation expense.

6. WARRANT PURCHASE

In September 1993, the Company purchased the remaining warrants outstanding for \$9,000,000. The carrying value of these warrants as of the date of the purchase was \$10,059,000. The Company recognized an extraordinary gain on the purchase of these warrants of \$1,059,000.

Report of Independent Accountants

To the Partners of BBM Partners, L.P.

In our opinion, the accompanying financial statements listed in the Index on page F-1 present fairly, in all material respects, the financial position of BBM Partners, L.P. at December 31, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Partnership's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Boston, Massachusetts
March 22, 1993

BBM Partners, L.P.

Balance Sheet

	<u>December 31,</u>	
	<u>1991</u>	<u>1992</u>
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 386	\$ 2,925
Accounts receivable, less allowance for doubtful ac- counts of \$151 in 1991 and \$206 in 1992	5,540	5,276
Due from related parties	151	—
Broadcast rights, net	8,741	6,641
Prepaid expenses	<u>66</u>	<u>109</u>
Total current assets	14,884	14,951
Property and equipment, net	16,835	14,736
Broadcast rights, net	9,955	6,631
Goodwill, net	18,565	18,085
Other intangible assets, net	<u>3,397</u>	<u>2,889</u>
	<u><u>\$63,636</u></u>	<u><u>\$57,292</u></u>
Liabilities and Partners' Capital		
Current liabilities:		
Current portion long-term debt	\$ —	\$ 1,500
Accounts payable	431	454
Accrued expenses	1,366	1,693
Interest payable	1,466	371
Due to related parties	672	589
Broadcast rights payable	<u>4,464</u>	<u>3,992</u>
Total current liabilities	8,399	8,599
Broadcast rights payable	2,011	2,241
Long-term debt	59,201	56,537
Partners' capital	(5,975)	(10,085)
Commitments and contingencies (Note 8)		
	<u><u>\$63,636</u></u>	<u><u>\$57,292</u></u>

The accompanying notes are an integral part of these financial statements.

BBM Partners, L.P.
Statement of Operations

	<u>Year ended December 31,</u>	
	<u>1991</u>	<u>1992</u>
	<u>(In thousands)</u>	
Revenues — net of agency and national representative commissions	<u>\$ 29,145</u>	<u>\$30,521</u>
Costs and expenses:		
Programming, production and engineering	3,221	3,192
Amortization of broadcast rights	14,366	10,817
Sales, promotion and marketing	4,200	4,670
General and administrative	7,590	8,043
Depreciation and amortization	<u>4,774</u>	<u>3,303</u>
	<u>34,151</u>	<u>30,025</u>
Income (loss) from operations	(5,006)	496
Interest income	16	21
Interest expense	<u>(6,096)</u>	<u>(4,627)</u>
Net loss	<u><u>\$(11,086)</u></u>	<u><u>\$ (4,110)</u></u>

The accompanying notes are an integral part of these financial statements.

BBM Partners, L.P.

**Statement of Changes in Partners' Capital
For the Years Ended December 31, 1991 and 1992**

	<u>General Partners</u>	<u>Limited Partner</u> (in thousands)	<u>Total</u>
Balance at December 31, 1990	\$ 4,685	\$426	\$ 5,111
Net loss for the year ended December 31, 1991	<u>(10,660)</u>	<u>(426)</u>	<u>(11,086)</u>
Balance at December 31, 1991	(5,975)	—	(5,975)
Net loss for the year ended December 31, 1992	<u>(4,110)</u>	<u>—</u>	<u>(4,110)</u>
Balance at December 31, 1992	<u><u>\$(10,085)</u></u>	<u><u>\$ —</u></u>	<u><u>\$(10,085)</u></u>

The accompanying notes are an integral part of these financial statements.

BBM Partners, L.P.
Statement of Cash Flows

	Year ended December 31,	
	1991	1992
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$(11,086)	\$(4,110)
Adjustments to reconcile net loss to net cash (used for) provided by operating activities:		
Depreciation and amortization	2,272	2,315
Amortization of goodwill	480	480
Amortization of other intangible assets	1,962	508
Amortization of broadcast rights, net of barter	9,412	6,413
Loss (gain) on disposal of property and equipment	60	(22)
(Increase) decrease in accounts receivable	(5,107)	264
(Increase) decrease in due from related parties	(151)	151
Decrease (increase) in prepaid expenses	32	(43)
(Decrease) increase in accounts payable	(72)	23
(Decrease) increase in accrued expenses	(762)	327
Increase (decrease) in interest payable	1,466	(1,095)
Increase (decrease) in due to related parties	133	(83)
Decrease in broadcast rights payable, net of barter	(4,904)	(1,231)
Net cash (used for) provided by operating activities ...	<u>(6,265)</u>	<u>3,897</u>
Cash flows from investing activities:		
Additions to property and equipment	(248)	(289)
Proceeds from sale of property and equipment	6	95
Net cash used for investing activities	<u>(242)</u>	<u>(194)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	7,839	900
Repayment of long-term debt	(2,636)	(2,064)
Net cash provided by (used for) financing activities	<u>5,203</u>	<u>(1,164)</u>
Net (decrease) increase in cash and cash equivalents	<u>(1,304)</u>	<u>2,539</u>
Cash and cash equivalents at beginning of year	1,690	386
Cash and cash equivalents at end of year	<u>\$ 386</u>	<u>\$ 2,925</u>
Supplemental schedule of noncash investing and financing activities:		
Film contracts acquired	<u>\$ 5,408</u>	<u>\$ 5,449</u>
Film contract liability additions	<u>\$ 5,408</u>	<u>\$ 5,449</u>

The accompanying notes are an integral part of these financial statements.

BBM Partners, L.P.
Notes to Financial Statements

1. ORGANIZATION

BBM Partners, L.P. (the "Partnership") is a joint venture of WTTO-TV, Inc. and WCGV-TV, Inc. (the "general partners") and Heller Financial, Inc. (the "limited partner") (Note 3). On December 21, 1990 the Partnership acquired the business and certain assets and assumed certain liabilities of HR Broadcasting Corporation, Inc., Channel 17 Associates, Ltd., HR Broadcasting of Birmingham, Inc. and HR Broadcasting of Milwaukee, Inc. (the "Sellers"). The Partnership was organized under the laws of the State of Delaware on December 11, 1990. The Partnership is a television broadcaster serving the Milwaukee, Wisconsin area through station WCGV on UHF Channel 24 and the Birmingham, Alabama area through station WTTO on UHF Channel 21. In addition, the Partnership serves the Tuscaloosa and Gadsen, Alabama markets through rebroadcast and affiliation agreements with WDBB on UHF Channel 17 and WNAL on UHF Channel 44, respectively.

The acquisition described above has been accounted for as a purchase. Accordingly, the aggregate acquisition cost has been allocated among the acquired assets and liabilities, in conformity with Opinion No. 16 of the Accounting Principles Board, giving recognition to the fair value of the assets acquired. The aggregate acquisition cost and allocation of such cost to the assets acquired are as follows:

Aggregate acquisition cost:	
Cash consideration.....	\$44,313
Direct acquisition costs	<u>529</u>
	<u>\$44,842</u>
Application to assets and (liabilities):	
Property and equipment	\$19,135
Broadcast rights	28,330
Broadcast rights payable	(23,855)
Goodwill and other intangible assets	<u>21,232</u>
	<u>\$44,842</u>

The Partnership funded the asset purchase principally through borrowings described in Note 6.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (IN THOUSANDS)

Allocation of Partnership Results to Partners' Capital Accounts

The net loss of the Partnership is allocated among the capital accounts of the partners based on their relative partnership interests until the limited partner's capital has been exhausted. Thereafter, net losses are allocated solely to the general partners. Net income is allocated in proportion to previously allocated net losses in reverse chronological order. Thereafter, net income is allocated to partners based on their relative partnership interests, as defined in the agreement.

Revenue Recognition

Revenue from the sale of air time to advertisers is recognized when the advertisement is broadcast.

Broadcast Rights

Broadcast rights are stated at the lower of unamortized cost or estimated net realizable value. Broadcast rights and the related liabilities are recorded at the contract value when the license period begins and the right is available for use. Broadcast rights are amortized using the straight-line method over the number of showings or license period. The net realizable value of broadcast rights for which

BBM Partners, L.P.
Notes to Financial Statements – (Continued)

the Partnership is contractually committed is reviewed annually and revisions to amortization rates or write-downs to net realizable value may occur. The current portion of broadcast rights represents those rights available for broadcast which will be amortized in the succeeding year.

Property and Equipment

Property and equipment are recorded at cost and depreciated over the estimated useful lives of the assets on a straight line basis. Major renewals and betterments are capitalized and ordinary repairs and maintenance are charged to expense in the period incurred.

Goodwill and Other Intangible Assets

Goodwill aggregating \$19,058 is amortized over 40 years using the straight-line method. At December 31, 1991 and 1992, accumulated amortization of goodwill aggregated \$493 and \$973, respectively. Legal and accounting fees associated with the acquisition of loans, aggregating \$3,084 and the organization of the Partnership, aggregating \$585, are capitalized and amortized over the term of the related debt and five years, respectively. Intangible assets, aggregating \$1,825, which arise principally from broadcast rights agreements, are amortized over the related agreement terms. At December 31, 1991 and 1992, accumulated amortization of other intangible assets aggregated \$2,097 and \$2,605, respectively.

Barter Transactions

Revenue from barter transactions is recognized when advertisements are broadcast and services or merchandise received are charged to expense when received or used. Revenues arising from barter and trade transactions aggregated \$5,236 and \$4,718 in 1991 and 1992, respectively.

Income Taxes

The financial statements of the Partnership do not include any provision for federal or state income taxes. All Partnership income, losses, tax credits and deductions are allocated among the partners. Each partner is responsible to report its distributed share of Partnership results in its federal and state income tax returns.

Cash and Cash Equivalents

The Partnership considers all highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents. The Partnership invests its excess cash in treasury bills with banks. Accordingly, the investments are subject to minimal credit and market risk.

Reclassifications

Certain reclassifications were made to the December 31, 1991 financial statements to conform to the current year presentation. These reclassifications have no effect on the Partnership's results of operation.

3. RELATED PARTY TRANSACTIONS (IN THOUSANDS)

ABRY Communications, L.P., parent of the general partners, provides certain administrative and support services to the Partnership for which it is paid a management fee. Management fees aggregating \$500 were charged to operations in 1991 and 1992, respectively. In subsequent years, these management fees are limited to \$500 plus an annual increase not to exceed 5%. Unpaid management fees and other amounts payable to ABRY Communications, L.P. totalling \$672 and \$589 are included in amounts due to related parties on the accompanying balance sheet at December 31, 1991 and 1992, respectively.

BBM Partners, L.P.
Notes to Financial Statements – (Continued)

During 1991, the Partnership entered into an operating lease agreement with Kansas City TV 62 Limited Partnership, an entity which is related through common ownership, under which the Partnership is the lessor of certain studio equipment and office furniture. The lease expires June 1, 1994 and future rental income under the agreement approximates \$45. Lease income of \$18 and \$28 was recognized as of December 31, 1991 and 1992, respectively.

Heller Financial, Inc., the limited partner in the Partnership, is also the holder of the senior term loan and the revolving credit facility referred to in Note 6.

4. PROPERTY AND EQUIPMENT (IN THOUSANDS)

Property and equipment consists of the following:

	Estimated useful life (years)	December 31,	
		1991	1992
Land and improvements	—	\$ 867	\$ 874
Buildings	30	2,614	2,627
Transmission towers	30	4,047	4,071
Transmission equipment	7-8	4,450	4,450
Studio equipment	5-7	6,309	6,327
Vehicles, office equipment and furniture	3-7	894	1,006
Leasehold improvements	5	26	26
		19,207	19,381
Less — accumulated depreciation and amortization		2,372	4,645
		<u>\$16,835</u>	<u>\$14,736</u>

5. BROADCAST RIGHTS (IN THOUSANDS)

The Partnership purchases the right to broadcast programs through fixed term license agreements. Broadcast rights consist of the following:

	December 31,	
	1991	1992
Aggregate cost	\$28,566	\$28,229
Less — accumulated amortization	9,870	14,957
	18,696	13,272
Less — current portion	8,741	6,641
	<u>\$ 9,955</u>	<u>\$ 6,631</u>

BBM Partners, L.P.
Notes to Financial Statements – (Continued)

Contractual obligations incurred in connection with the acquisition of broadcast rights are \$6,233, including \$2,258 of barter obligations. Future payments in connection with these contractual obligations are as follows at December 31, 1992:

1993	\$3,992
1994	1,223
1995	630
1996	320
1997	68
Thereafter	<u>—</u>
	<u>\$6,233</u>

6. DEBT (IN THOUSANDS)

Long-term debt consists of the following:

	<u>December 31,</u>	
	<u>1991</u>	<u>1992</u>
Senior term loan	\$39,000	\$39,000
Senior subordinated term loan	4,500	4,500
Revolving credit facility	1,164	—
Subordinated note	<u>14,537</u>	<u>14,537</u>
	59,201	58,037
Less — current portion	<u>—</u>	<u>1,500</u>
	<u>\$59,201</u>	<u>\$56,537</u>

The Partnership has two term loan agreements with financial institutions. Interest on the senior term loan (Note 3) is variable based upon the Partnership's option of selecting the prime rate plus a computed margin rate which ranges from 1.50% to 1.75%, or the London Interbank Offer Rate (LIBOR) plus a computed margin rate which ranges from 2.75% to 3.00%. The principal amount of the loan is payable in 24 quarterly installments of varying amounts commencing March 31, 1993 and a final installment of \$22,125 due December 31, 1998. The senior subordinated term loan bears interest, payable monthly, at the base rate, computed by taking the higher of the Federal Funds rate plus 1% or prime, plus a computed margin rate which ranges from 1.75% to 2.25%. The principal amount of the loan is payable in full on January 31, 1999.

The revolving credit facility (the "revolver") (Note 3) provides for borrowings up to \$7,000 and bears interest, payable monthly, at prime plus a computed margin rate ranging from 1.50% to 1.75%. The Partnership is charged a fee for the average daily unused portion of the revolver commitment at a rate of 1/2% per annum, payable monthly. While the Partnership may repay all or a portion of the revolver borrowings at any time, any outstanding principal must be paid in full on or before December 31, 1998. At December 31, 1992, there were no borrowings outstanding under the revolver.

The subordinated note interest on the outstanding principal is at the rate of 10% per annum. Interest accrued through December 31, 1991 was paid on April 15, 1992. Interest accrued from January 1, 1992 through June 30, 1992 was paid on August 15, 1992. Interest thereafter accrues quarterly and is due and payable 45 days after such quarterly date. The principal balance of the note is payable on January 31, 1999. As of December 31, 1991 and 1992 interest payable on the subordinated note of \$1,466 and \$371, respectively, has been recorded in the accompanying financial statements.

The timing of principal payments may be accelerated should the Partnership achieve a certain level of cash flows, as defined in the loan agreement.

BBM Partners, L.P.
Notes to Financial Statements – (Continued)

The borrowings are secured by substantially all of the Partnership's assets and require the Partnership to comply with certain specified financial ratios and provisions.

Aggregate annual principal payments of long-term debt are as follows at December 31, 1992:

1993	\$ 1,500
1994	2,500
1995	3,000
1996	3,000
1997	3,500
Thereafter	<u>44,537</u>
	<u>\$58,037</u>

Interest paid during the period ended December 31, 1991 and 1992 was \$4,629 and \$5,721, respectively.

7. RETIREMENT SAVINGS PLAN

The Partnership has adopted a retirement savings plan under Section 401(k) of the Internal Revenue Code. This plan covers substantially all employees of the Partnership and affiliated partnerships who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. Contributions from the Partnership are made on a monthly basis in an amount equal to 20% of the participating employee contributions, to the extent such contributions do not exceed 4% of the employees' eligible compensation during the month. Additional Partnership contributions to the plan may be made at the discretion of the Board of Directors. No additional Partnership contributions were authorized for the years ended December 31, 1991 and 1992.

8. COMMITMENTS AND CONTINGENCIES (IN THOUSANDS)

Employment Agreements

The Partnership has employment agreements entitling certain key employees to appreciation rights payable upon either a change in control of the Partnership or the payment of certain partner cash distributions. The employees vest in these rights at the rate of 20% per year from the date the rights are granted, except that they vest fully if they are employees of the Partnership at the time the rights become payable. Amounts due to the employees in connection with these rights are determined by a formula which considers appreciation in the value of the Partnership. Based upon management's estimate of the appreciation in the value of the Partnership, an accrual for compensation related to these rights of \$240 has been recorded at December 31, 1992.

BBM Partners, L.P.
Notes to Financial Statements – (Continued)

Broadcast License Agreements

Broadcast rights acquired under license agreements are recorded as an asset and a corresponding liability at the inception of the license period. In addition to these broadcast rights payable at December 31, 1992, the Partnership has \$8,900 of commitments to acquire broadcast rights for which the license period has not commenced and, accordingly, for which no liability has been recorded. Future minimum payments arising from such commitments outstanding at December 31, 1992, of which \$2,558 represents barter commitments, are as follows:

1993	\$1,922
1994	1,328
1995	1,649
1996	1,703
1997	1,313
Thereafter	<u>985</u>
	<u><u>\$8,900</u></u>

Operating Leases

The Partnership leases a studio and other operating equipment under noncancellable operating leases expiring in 2001. Under the terms of the studio lease the Partnership has the option to renew the lease for an additional ten years. Charges to expenses for such leases aggregated \$228 and \$209 in 1991 and 1992, respectively. Future minimum lease payments under these leases are as follows at December 31, 1992:

1993	\$ 180
1994	135
1995	106
1996	99
1997	97
Thereafter	<u>788</u>
Total minimum lease payments	<u><u>\$1,405</u></u>

BBM PARTNERS, L.P.
UNAUDITED BALANCE SHEET
SEPTEMBER 30, 1993

(in thousands)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 4,974
Accounts receivable, net of allowance for doubtful accounts of \$188	4,487
Current portion of program contract costs	4,052
Prepaid expenses and other current assets	<u>299</u>
Total current assets	13,812

PROPERTY AND EQUIPMENT, net	13,201
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PROGRAM CONTRACT COSTS, noncurrent portion	5,279
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ACQUIRED INTANGIBLE BROADCASTING ASSETS, net of ac- cumulated amortization of \$4,333	<u>20,198</u>
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Total Assets	<u><u>\$52,490</u></u>
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LIABILITIES AND PARTNERS' CAPITAL

CURRENT LIABILITIES:

Accounts payable	\$ 172
Accrued liabilities	2,134
Current portion of long-term liabilities —	
Notes payable and commercial bank financing	2,250
Program contracts payable	<u>2,078</u>
Total current liabilities	6,634

LONG-TERM LIABILITIES:

Notes payable	54,662
Program contracts payable	<u>2,662</u>
Total liabilities	<u>63,958</u>

COMMITMENTS AND CONTINGENCIES

PARTNERS' CAPITAL	<u>(11,468)</u>
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Total Liabilities and Partners' Capital	<u><u>\$52,490</u></u>
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The accompanying notes are an integral part of this unaudited balance sheet.

BBM PARTNERS, L.P.
UNAUDITED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1992 AND 1993
(in thousands)

	<u>1992</u>	<u>1993</u>
REVENUES:		
Advertising revenues, net of agency commissions of \$3,403 and \$2,776, respectively.....	\$19,757	\$16,377
Revenues realized from barter arrangements	<u>3,566</u>	<u>3,671</u>
Net broadcast revenues	<u>23,323</u>	<u>20,048</u>
OPERATING EXPENSES:		
Program and production	10,769	6,518
Selling, general and administrative.....	5,458	5,636
Amortization of program contract costs and net realizable value adjustments	4,507	3,893
Depreciation and amortization of property and equipment	1,726	1,770
Amortization of acquired intangible broadcasting assets and other assets.....	<u>737</u>	<u>755</u>
	<u>23,197</u>	<u>18,572</u>
Broadcast operating income	<u>126</u>	<u>1,476</u>
OTHER INCOME (EXPENSE):		
Interest expense.....	(3,556)	(3,179)
Interest income	7	72
Other income	<u>388</u>	<u>248</u>
	<u>(3,161)</u>	<u>(2,859)</u>
NET LOSS	<u><u>\$ (3,035)</u></u>	<u><u>\$ (1,383)</u></u>

The accompanying notes are an integral part of these unaudited statements.

BBM PARTNERS, L.P.
 UNAUDITED STATEMENT OF PARTNERS' CAPITAL
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1993
 (Note 1)
 (in thousands)

	<u>General Partners</u>	<u>Limited Partner</u>	<u>Total</u>
BALANCE, December 31, 1992	\$(10,085)	\$—	\$(10,085)
Net loss	<u>(1,383)</u>	<u>—</u>	<u>(1,383)</u>
BALANCE, September 30, 1993	<u>\$(11,468)</u>	<u>\$—</u>	<u>\$(11,468)</u>

The accompanying notes are an integral part of this unaudited statement.

BBM PARTNERS, L.P.

UNAUDITED STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1992 AND 1993
(in thousands)

	<u>1992</u>	<u>1993</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(3,035)	\$(1,383)
Adjustments to reconcile net loss to net cash flows from operating activities –		
Depreciation and amortization of property and equipment	1,726	1,770
Amortization of acquired intangible broadcasting assets and other assets	737	755
Amortization of program contract costs and net realizable value adjustments	4,507	3,893
Changes in assets and liabilities, net of effect of acquisitions and dispositions –		
(Increase) decrease in accounts receivable, net	(451)	790
(Increase) decrease in prepaid expenses and other current assets	189	(190)
Increase (decrease) in accounts payable and accrued liabilities	(634)	(801)
Payments on program contracts	<u>(864)</u>	<u>(1,437)</u>
Net cash flows from operating activities	<u>2,175</u>	<u>3,397</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net of disposals	<u>(132)</u>	<u>(223)</u>
Net cash flows from investing activities	<u>(132)</u>	<u>(223)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and commercial bank financing	500	–
Repayments of notes payable, commercial bank financing and capital leases	<u>(1,664)</u>	<u>(1,125)</u>
Net cash flows from financing activities	<u>(1,164)</u>	<u>(1,125)</u>
Net increase (decrease) in cash and cash equivalents	879	2,049
CASH AND CASH EQUIVALENTS, beginning of period	<u>533</u>	<u>2,925</u>
CASH AND CASH EQUIVALENTS, end of period	<u><u>\$ 1,412</u></u>	<u><u>\$ 4,974</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR:		
Interest	<u><u>\$ 4,651</u></u>	<u><u>\$ 2,808</u></u>

• The accompanying notes are an integral part of these unaudited statements.

BBM PARTNERS, L. P.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

1. **BASIS OF PRESENTATION** — BBM Partners, L. P. (the "Partnership") is a television broadcaster serving the Milwaukee, Wisconsin area through station WCGV ("WCGV") on UHF Channel 24 and the Birmingham, Alabama area through station WTTO ("WTTO") on UHF Channel 21. In addition, the Partnership serves the Tuscaloosa and Gadsen, Alabama markets through rebroadcast and affiliation agreements with WDBB on UHF Channel 17 and WNAL on UHF Channel 44, respectively.

In the opinion of management, the accompanying interim financial statements present fairly the Partnership's financial position at September 30, 1993 and the results of its operations and its cash flows for the nine month periods ended September 30, 1992 and 1993, and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations for those periods. These statements are unaudited, and certain information and footnote disclosures normally included in the Partnership's annual financial statements have been omitted, as permitted under the applicable rules and regulations. Readers of these statements should refer to the financial statements and notes thereto as of December 31, 1991 and 1992 and for each of the years in the two-year period ended December 31, 1992 included elsewhere in the Prospectus. The results of operations presented in the accompanying financial statements are not necessarily representative of operations for an entire year.

2. **RELATED PARTY TRANSACTIONS** — On March 15, 1993, Super 18 Television, L. P. ("Super 18"), an entity related through common ownership, entered into a time brokerage arrangement with WVTM, Inc., a television broadcaster serving Milwaukee, Wisconsin area through station WVTM on UHF Channel 18. The time brokerage arrangement permits Super 18 to provide an over-the-air program service to the Milwaukee area using the facilities of station WVTM ("WVTM"). WVTM, Inc. maintains ultimate control over WVTM's finances, personnel and programming.

Simultaneously, Super 18 and WVTM, Inc. executed an Option and Asset Purchase Agreement giving Super 18 an option to purchase the assets of WVTM and to obtain the assignment of the stations FCC license.

3. **SALES AGREEMENT** — In August 1993, the Partnership entered into an agreement with Sinclair Broadcast Group, Inc. to sell certain of the assets of WCGV and WTTO. This sale is subject to regulatory approvals.